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# 2016 Top Markets Report **Franchising**

A Market Assessment Tool for U.S. Exporters

May 2016



Industry & Analysis' (I&A) staff of industry, trade and economic analysts devise and implement international trade, investment, and export promotion strategies that strengthen the global competitiveness of U.S. industries. These initiatives unlock export, and investment opportunities for U.S. businesses by combining in-depth quantitative and qualitative analysis with ITA's industry relationships.

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**Richard Boll** served as the lead author for this report. Special thanks to the **International Franchise Association** for their assistance and industry feedback on this report. A note of thanks to **U.S. Commercial Service offices** all over the world for their input to this report.

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## Executive Summary

As a leading job creator in both the U.S. and abroad, franchising continues to prosper in markets all over the world, no matter their level of development or sophistication. Defying the current anemic global economy, franchising remains a growth sector and a popular sector for U.S. exports. Even with its long history and large international footprint, franchising is still misunderstood by consumers, business leaders and government officials.

The concept of franchising is a business agreement where an individual person or a company can purchase the products or services that have been developed into a prosperous business model. Of all the *Top Markets Reports*, franchising is the only sector specifically designed for the entrepreneurial individual to move directly into an ownership position. Franchising is the ultimate start-up sector for the individual owner.

The big name franchises, such as McDonald's and Subway, started out as small businesses that morphed into giant multinational firms due to their successful concepts. While everyone sees the numerous McDonald's and Subway stores around the world, not all may understand that these individual stores are owned by individual entrepreneurs and not McDonald's or Subway. These small business owners purchase the concepts and pay royalties to these successful concepts to grow a successful business of their own. The overwhelming majority of franchise owners are actually small to medium-sized businesses. Most franchise owners only own one unit (establishment) and employ less than 30 people.

This report will highlight the importance of free trade agreements and other trade-related activities that are important to the franchise industry. New trade agreements help the franchise sector by reducing barriers to trade, providing protection of intellectual property, reducing regulatory burdens and increasing transparency, all of which are essential to exporting franchising.

The report will also focus on the importance of franchising to the U.S. and international markets and identify the important issues that are critical and unique to the sector, such as trade barriers, market challenges, market opportunities, multiplier effect and misinformation about franchising. In addition, the report will show how franchising positively impacts international markets.

Finally, the report includes case studies on twelve markets identified by franchise industry leaders. Alphabetically, the case studies are: Argentina, Australia, Brazil, Canada, China, Colombia, India, Indonesia, Mexico, South Africa, the United Kingdom and Vietnam.

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# Overview and Key Findings

## Introduction

American brands and franchise systems are rapidly expanding to new markets all over the world, fueling job creation at home, boosting the export of American products and services and playing a role in commercial diplomacy. In exporting franchise systems, companies not only bring U.S. brands to all corners of the globe, they also help promote local economic development in many countries.<sup>1</sup>

With its long history of success, franchising is a global success story where economies from all over the world have benefitted from the franchise model. The system of franchising is made up mostly of small and medium-sized concepts, which creates jobs and provides an avenue to entrepreneurship to millions of people.

Franchising has always been associated with the entrepreneurial spirit. The idea of taking an idea and making something with it financially has been a major selling point of the franchise sector. The allure of starting your own business, self-employment and making your own work hours has drawn people to franchising. There are numerous success stories of people with a vision or an idea that have made fortunes in the franchise sector, either by creating their own idea or purchasing a franchise that has already been established.

As a major job creator, franchising has been able to provide opportunities for workers and franchise owners in both developed and developing markets. Successful concepts are able to tailor their goods or services to meet the needs of each market.

Franchising offers products and services in over 300 business categories, including food and beverage, lodging, health and educational services, professional services, auto care, accounting and tax services, real estate, home services, IT services and retail products.<sup>2</sup>

For the franchise fee and royalties that are paid to the franchisor, the franchisee receives the right to operate under the franchisor's marks and use its business system, training, support and often additional services such as site evaluations. The agreement between the franchisor and franchisee

creates a partnership. Franchisors rely on royalties (a percentage of the franchisees' revenue), so they are invested in the ongoing success of their franchisees.

Franchising is small business. Although most people associate franchising with big companies, such as McDonald's, Subway and Hertz, the overwhelming majority of franchise owners are actually small to medium-sized businesses. Most franchise owners only own one unit (establishment) and employ less than 30 people. Because of the efficiency of the franchise model, most franchisors are also small or mid-sized businesses.

Trade agreements, such as the Trans-Pacific Partnership (TPP), provide greater opportunities for U.S. franchises to export their concepts. These agreements level the playing field for U.S. firms by eliminating barriers and creating transparency. With more than 95 percent of the world's consumers living outside our borders, TPP will significantly expand the export of made-in-America goods and services and support American jobs, especially in the Asia-Pacific region.

The International Trade Administration's (ITA) Global Franchise Team is committed to providing assistance to U.S. franchisors to enter new international markets. The future looks bright for international franchising, and the Global Franchise Team will continue to work closely with franchise leaders to plan future events, including trade missions throughout the world.

The International Trade Administration is making a comprehensive and significant effort aimed to support U.S. jobs by ramping up and maximizing U.S. exports. Franchising has always been a tremendous job creator, both in the U.S. and abroad, so support of franchising exports is in line with U.S. government policy objectives.

The International Franchise Association (IFA), a major contributor to this report, is the world's oldest and largest organization representing franchising worldwide. The IFA notes that its members include over 1,300 franchisor companies, over 12,000 franchisee members and 700 supplier companies. The IFA is a strategic partner with the Department of Commerce.

## Key Findings: Top Markets and Methodology

When determining which global markets policy-makers should target for export promotion and trade policy activities, it is important to account for the primary decision-making criteria of U.S. businesses engaged in franchising. In this report and the case studies that follow, the criteria for ranking markets were rankings on government/regulations, labor force, infrastructure and demand. These are reflected in the created scorecard and country case studies.

The scorecard developed for this report is based on rankings in the competitiveness index created by the World Economic Forum. By using this competitiveness index, a cross-country analysis of the four criteria listed above was possible, reflecting the primary criteria that industry indicated as a priority in market selection.

The case studies of this report analyze selected potential markets and assess important competitiveness factors. These case studies are intended to aid the International Trade Administration in promoting the export of franchising to improve U.S. export opportunities. Inclusion in the case studies section does not necessarily indicate that a country is among the highest ranked but rather that there has been interest expressed from government or private sector in exploring these countries. The initial countries selected for review have been identified by industry as holding the most relevance for companies exploring exporting their franchise concepts.

### Key Market Assessment Requirements

Key variables impact the viability of markets for the international growth of U.S. franchise businesses. The five primary criteria are the governmental regulatory environment, whether there is a trainable skilled labor force, the infrastructure environment, the potential demand within the country or region and results from a survey of top international franchise representatives identifying their top

markets to export.

### Government/Regulatory

Regulatory environment is one of the most important factors impacting the attractiveness of a market to U.S. franchise exporters. The first aspect that U.S. companies consider when looking at a new market is the regulatory environment of the country. In particular, U.S. industry looks for a stable government with transparent policymaking and legal frameworks that allow companies to resolve legal disputes.

### Labor Force

Another important aspect for deciding whether to enter a market is the quality and skill levels of the workforce in the market. Industry must have the capacity to train and develop the talent and the management required to run a franchise.

### Infrastructure

The infrastructure within a country is another top aspect in the decision-making process. Electricity and IT infrastructure must be sufficient to support logistics operations. Transportation infrastructure must be of a level capable of supporting the reliable distribution of product, such as food and equipment, within the country or region without excessive delays. In addition, local sourcing of products and a reliable cold chain are also very important.

### Demand/Business Factors

The demand within a country must be considered. The potential size of the market will vary according to the size of its middle class, consumer wants and needs, the number of consumers of the country, products produced in and demanded by the market, as well as the level of development within the market.

### Industry Input

Direct industry input is also a major category to be

**Figure 1: Projected Franchise Markets (Rank Order)**

1. Canada	5. South Africa	9. Colombia
2. Australia	6. Mexico	10. Brazil
3. China	7. India	11. Argentina
4. Indonesia	8. Vietnam	To be considered: United Kingdom



included. The final category reflects the results of a survey conducted by the International Franchise Association asking its internationally active franchisors members which countries they see as holding the best export potential for their franchise concepts.

## **Industry Overview and Competitiveness**

### What is Franchising?

Franchising is a method of distributing products or services by licensing business processes, products, services and intellectual property to investors who will operate within an established business model. At least two levels of people are involved in a franchise system: (1) the franchisor, who provides its trademark or trade name and a business system and (2) the franchisee, who pays an ongoing royalty and usually an initial fee for the right to do business under the franchisor's name and system.<sup>3</sup>

Business format franchising is the type most identifiable to the average person. In a business format franchise relationship, the franchisor provides to the franchisee not just its trade name, products and services but an entire system for operating the business. The franchisee generally receives site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisor.

While less identified with franchising, traditional or product distribution franchising is actually larger in total sales than business format franchising. In a traditional franchise, the focus is not on the system of doing business but mainly on the products manufactured or supplied by the franchisor to the franchisee. In most, but not all, situations, the manufactured products generally need pre and post-sale service as found in the automobile industry. Examples of traditional or product distribution franchising can be found in bottling, gasoline, automotive and other manufacturers.

### Domestic Landscape

Franchising is an important driver in our economy - it is responsible for one in seven jobs in the United States, and accounts for 50 percent of all retail sales that will take place in our country across 75 industries.<sup>4</sup> In the United States, there are over

780,000 franchise businesses that directly employ over 8.8 million people and account for over \$890 billion in direct economic output.<sup>5</sup>

Franchise businesses continue to grow faster than the rest of the U.S. economy. The Franchise Business Economic Outlook: 2015 report released in January 2016 notes that franchising will outperform the U.S. economy for the sixth consecutive year in terms of overall growth. The report forecasts that in 2016, the economic output of the U.S. franchise sector will increase by 3.1 percent to \$944 billion and that direct franchise employment will grow by 278,000 jobs.

The January 2016 report highlights the following:

- For the past five years, the average annual job growth in the franchise sector was 2.6 percent, nearly 2 percent higher than all businesses economy-wide.
- Over the last five years, the franchising sector has added nearly 1 million jobs to the economy.
- The number of franchise establishments is expected to grow this year by 13,359, or 1.7 percent, to 795,932.
- The gross domestic product (GDP) of the franchise sector is projected to rise 5.6 percent this year to \$552 billion, adding \$29 billion in GDP to the U.S. economy. The franchise sector will contribute approximately 3 percent of U.S. GDP in nominal dollars.

### Franchising Misunderstood/Changing the Perception

The franchising model is a unique business model that continues to be misunderstood. According to Aziz Hashim, Chairman of the International Franchise Association and Managing Partner of NRD Capital Management, "The model does not require previous business experience to own a business, create jobs and contribute to the local economy and communities".<sup>6</sup> The franchise concept has years of experience training and mentoring franchise owners while also training the employees. "For those unemployed or underemployed, franchises offer entry-level employees a starting wage and basic skills training with no prior experience required."<sup>7</sup> The perception that it is big business is inaccurate. The big name franchise concepts do not own the thousands of stores and restaurants that carry their name. As noted earlier, those individual establishments are owned and run mostly by small business owners.

The vast majority of franchise employees work in units owned by franchisees; additionally, many well-known franchisors have less than 500 employees, qualifying them as SME companies.

Being labeled as big business has created difficulties for the franchise sector, both in the United States and abroad. Policies and regulations that target large business and that have been established or proposed are sometimes unfairly pushed onto the small business franchise owner since they are being incorrectly identified as a big business. These policies endanger the franchise business model.

#### Military Friendly









One in seven franchise businesses are owned and operated by veterans of the U.S. military, according to a study conducted by PricewaterhouseCoopers for the International Franchise Association Educational Foundation based on U.S. Census data. More than 66,000 veteran-owned franchise businesses in the U.S. directly provide jobs for 815,000 Americans and generate more than \$41 billion in GDP. Since 2011 over 250,000 veterans have started careers in franchising.

#### **Global Industry Landscape**

Due to the high quality of their products (enforcement of brand standards is a backbone of the franchise model) and strong training and support systems, U.S. franchise firms are global leaders and are some of the most famous brands in the world.

Modern franchising emerged from the United States. Because America is the world's most mature franchise market, use of the franchise model internationally is a competitive advantage for U.S. exports. Initially, international expansion was reserved for the large franchisors in each market segment. International franchising has now become a priority for small and mid-sized franchise companies across many different industries.<sup>8</sup> According to Franchise Times data, 38 percent of the units of the 200 largest U.S.-based franchisors are already outside the United States. Over the last three years (2012 to 2015), these companies have collectively added four international units for each unit they opened domestically. When a franchise is exported, the international franchisee pays the franchisor a percentage of their revenue (franchise fees) in return for the right to operate the business

**Figure 2: Leading U.S. Franchise Firms**

		Company	Industry	Sales	U.S. Locations	Total Locations
1		McDonald's <i>Oak Brook, IL</i>	Restaurant	\$87.78 B	14,344	36,258
2		7-Eleven <i>Dallas, TX</i>	Retail	\$84.50 B	7,836	55,801
3		KFC <i>Louisville, KY</i>	Restaurant	\$23.40 B	4,391	19,420
4		Subway <i>Milford, CT</i>	Restaurant	\$18.20 B	26,958	43,154
5		Burger King <i>Oakville, ON</i>	Restaurant	\$17.01 B	7,126	14,372
6		Ace Hardware <i>Oak Brook, IL</i>	Retail	\$14.29 B	4,251	4,794
7		Hertz <i>Naples, NJ</i>	Automotive	\$14.20 B	5,760	11,230
8		Pizza Hut <i>Plano, TX</i>	Restaurant	\$12.20 B	7,908	15,605
9		Marriot Hotels & Resorts <i>Washington, DC</i>	Hotel/Travel	\$9.60 B	347	578
10		Wendy's <i>Dublin, OH</i>	Restaurant	\$9.30 B	5,750	6,515

\*Franchise Times

in their country. The American franchisor collects the income and provides support. Because of this structure, franchise growth across borders tends to create new jobs at home, not export jobs from the United States. Bureau of Economic Analysis data shows that franchise fee exports nearly doubled from 2006 to 2014. According to Bureau of Economic Analysis data, franchise fees have an overwhelmingly (34 to 1) positive impact on America's trade balance.

Franchised business has been adapted to and thrived in almost every culture on earth. Even the least developed parts of the world are encountering a form of franchising, as many non-profits are adopting franchise models to distribute health products and services.

Beyond the world's largest brands, most franchise companies seek international development. A recent IFA member survey found that:<sup>9</sup>

- 74 percent of franchisors want to start or accelerate international operations,
- 72 percent believe international growth is important to future success of the sector,
- 84 percent plan to start or accelerate international operations,
- 25 percent generate 25 to 50 percent of revenue internationally.

Key factors that franchise firms look for in evaluating which countries to pursue for international expansion include:

- population (size of the market)
- middle class (consumers ability to purchase goods and services, disposable income)
- regulatory framework (how restrictive is government to business)
- currency (valuation and ability to move money in and out of country)
- and legal system (fairness and efficiency).

### **Challenges, Barriers and Opportunities**

When discussing with franchisor representatives, several of the same issues are noted as challenges to exporting franchising, such as onerous regulatory requirements, restrictions on market entry requiring the establishment of joint ventures, local sourcing requirements, currency transfer issues and lack of qualified investors in foreign markets.

Regulation: Licensing and registration requirements pertaining to franchising are relatively common. Some governments, however, have made it difficult to do business by imposing onerous licensing and registration requirements that take months, even years, to complete.

Joint venture requirements: In certain countries, foreign companies are required to establish businesses as joint venture partnerships with local firms. In some cases, U.S. franchise firms encourage entering joint venture agreements to take advantage of the local expertise of a company or an individual. On the other hand, being forced into these relationships can be counterproductive. In some markets the synergies created by a joint venture are not realized, and the partnership is not conducive to a successful arrangement.

Local sourcing: Although many franchises would welcome sourcing locally when possible, the quality of goods and services may not meet the high standards required by U.S. franchise concepts. Local sourcing requirements can be deal breakers.

Currency issues: When discussing currency, two issues come to mind that franchise firms must be aware of: the strength and stability of a country's currency and the ability to move money into and out of the country. If a country's currency devalues, it causes profits to erode when it is converted back into U.S. Dollars. Unrestricted movement of currency to and from a country is important to allow for ease of investment and to take profits out of a country.

Lack of qualified investors: Franchise fees range from several thousand dollars to several million dollars. Finding qualified investors is especially difficult in foreign markets where a company or a person's ability to purchase a franchise is hard to evaluate.

### Franchising's Multiplier Effect

International growth of franchises often acts as a significant export multiplier, with other goods and services flowing through the door opened by the franchise agreement. Franchising is identified with royalties, fees and sales of the franchise's goods and services. Consumers may encounter franchising when they buy a house through a real estate firm, stay in a hotel, buy sandwiches, purchase auto or hardware supplies, use tax services, join fitness clubs

### Figure 3: Multiplier Effect Impacts

**Services: Accountants, Lawyers, Cold Chain, IT, Advertising and Transportation, to name a few.**  
**Manufacturing: Refrigerators, Fryers, Sports Equipment and Computers, among others.**

and rent cars. They may not understand or see that numerous additional industries are positively impacted by franchising.

Many franchise concepts require specific products for their concepts. These may be proprietary goods owned by the franchisor and may involve the use of supply chains the franchisor has established to meet brand standards. For instance, numerous food and beverage franchises must purchase specific fryers to cook their food and refrigerators to store food items. These are examples of the multiplier effect that international and domestic franchises can have on the U.S. economy. In addition, services, such as accounting, legal and advertising services, are directly impacted. For example, franchising may impact the following:

- **Information Technology:** software programs to record sales, control inventory, produce accounting records, payroll and other business related functions.
- **Equipment:** fryers, grills, refrigerators, televisions, sports equipment and computers.
- **Legal:** legal advice and consultation.
- **Advertising:** producing and implementing marketing plans.
- **Accountants:** maintaining the accounts and filing taxes.
- **Agriculture:** U.S. food products.

As for indirect benefits, franchise firms, especially U.S. firms, are known to attract high levels of business traffic to malls and shopping centers, which create additional sales for businesses already established at these places.

The International Franchise Association has commissioned a report due 2016 to 2017 that will analyze and quantify the multiplier effect associated with franchising.

#### Franchising's Close Relationship to Department of Commerce (DOC)

The relationship between the DOC, ITA's parent agency, and the IFA goes back many years. In the 1990s, Commerce led a franchise trade mission to China, with which the IFA was directly involved. DOC

has a very active Global Franchise Team, which works closely with both the IFA and the Franchise Times, a leading franchise publication. The team has coordinated with these partners on numerous trade missions and on addressing international trade issues. For several years, DOC and the IFA have worked on the International Franchise Expo (IFE), which is an IBP event that is strongly supported by DOC.

#### *Trade Missions*

DOC, IFA, and Franchise Times have coordinated numerous trade missions over the years. Below is a list of the most recent and the proposed missions for 2016.

- 2016: Plans for Middle East (Oman, Qatar, UAE and Turkey); Latin America (Brazil, Uruguay); and India and Sri Lanka.
- 2015: Central America (Costa Rica, El Salvador, Guatemala); Asia (South China, Taiwan); and Nordic countries (Norway, Sweden, Finland)
- 2014: India, Philippines, Mexico
- 2013: Middle East (Egypt, Jordan, Qatar); Sub Saharan Africa (South Africa, Kenya, Nigeria); China

#### *International Franchise Exhibition (IFE)*

The IFE is an extremely successful annual event for the U.S. franchise community, which DOC has supported for many years. In 2015, the three-day event has featured over 400 franchise exhibitors, with investments ranging from \$5,000 to over \$1 million for a wide range of product categories. As the largest franchise expo in the U.S., visitors have the opportunity to meet face-to-face with executives of the exhibiting franchisors and attend in-depth conference programs as well as free seminars. The opportunities at IFE cover multiple markets and industries. The event brings together expanding and developing franchise concepts with the most qualified franchisee candidates in the U.S. and around the world.

The IFE is an International Buyer Program (IBP) event. The IBP is a joint government-industry effort that brings thousands of international buyers to the

United States for business-to-business matchmaking with U.S. firms exhibiting at major industry trade shows.

DOC provides comprehensive trade counseling, market intelligence, business matchmaking, export assistance services and trade promotion to the franchise firms that participate in the IFE. The IBP assists international visitors in meeting with targeted exhibitors to cultivate partnerships and promote the sale of U.S. products and services. The IFE includes

IBP delegations and more than 400 top franchises from all industries, including restaurants, repair-cleaning services, education, business consulting, exercise, rental services and many more. Top executives from business and government attend the event to network and to hear about the latest international trends, financial challenges and new market opportunities. Fourteen percent of the more than 20,000 attendees at the 2015 show came from 122 countries outside the United States.

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### **Country Case Studies**

The following pages include country case studies that summarize export opportunities in selected markets. The overviews outline ITA's analysis of the U.S. export potential in each market. The markets represent a range of countries to illustrate a variety of points and not the top five markets overall.

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# Canada

As our largest North American trading partner, Canada's close proximity and common language makes it one of the most logical destinations for franchise firms to export their concepts. The franchising sector accounts for about 10 percent of Canada's GDP.

Overall  
Rank

1

According to the Canadian Franchise Association, Canada's franchising sector comprises more than 1,000 franchises and more than 78,000 individual units, ranging from restaurants to non-food retail establishments, from automotive product retailers to purveyors of business services. This sector accounts for 10 percent of Canada's GDP. In the retail sales sector, 45 percent of all sales are from franchise operations. The fastest-growing demographic of franchise buyers is women.<sup>10</sup>

The Canadian franchise industry:<sup>11</sup>

- Generates approximately \$68 billion each year
- Over 1 million Canadians, 1 of every 14 working Canadians, are directly or indirectly employed by the franchise industry
- There are over 78,000 franchise units across Canada

Although there are no federal franchise laws, Ontario, Prince Edward Island and Alberta have franchise-specific-legislation aimed at ensuring that small business investors are able to make informed decisions prior to committing to franchise agreements. Disclosure requirements provide prospective franchisees with information about how sellers plan to approach key contractual issues, such as termination, and afford buyers stronger legal remedies regarding court action. Similar legislation is under consideration in other provinces.<sup>12</sup>

## World Economic Forum's Global Competitiveness Index (GCI)<sup>13</sup>

The high ranking is a result of Canada's highly efficient labor markets, excellent health care and primary education, and a stable government known to be trade friendly. Canada continues to be the largest export market for the United States.

### Canada

Competitiveness Index	Score (1-7)
Government/Regulatory	5.1
Labor Force	5.1
Infrastructure	5.9
Demand/Business Factors	5.1
Industry Interest*	5.9

5.42 Total

World Economic Forum  
International Franchise Association\*

### Economic Statistics

Population	35.54 million
GDP	\$1.785 trillion
GNI, per capita (PPP)	\$43,360
Income Level	High
Unemployment	6.9%
Inflation	1.9%

World Bank (2014)

### Government/Regulatory

Canada offers an efficient and transparent legal system that incorporates strong intellectual property protection.

The regulatory burdens on industry in Canada, however, are somewhat high for a developed country. Canada rates high for security within its borders.

### Labor Force

With a population of over 35 million, franchise firms can take advantage of Canada's highly efficient labor market.

### Infrastructure

With its world class transportation infrastructure and efficient electricity and telephone systems, Canada boasts one of the best infrastructures for doing business in the world. Canada's banking system is considered strong in this global economy.

### Demand/Business Factors

Canada's financial system is considered one of the strongest in the world. Local suppliers are known for their ability to produce quality goods and services.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Canada was ranked 11<sup>th</sup>.

### **Resources**

U.S. Commercial Service – Canada  
<http://export.gov/canada/>

Canada Country Commercial Guide (CCG)  
<http://export.gov/ccg/canada090978.asp>

Canada - Franchising:  
<http://apps.export.gov/article?id=Canada-Franchising>

Canada – Protecting Intellectual Property  
<http://apps.export.gov/article?id=Canada-Protecting-Intellectual-Property>

### **Industry Expert's Take:**

**The Canadian Dollar versus the USD is causing challenges for food and beverage franchises. New government needs to show they are pro new business investment.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**

# Australia

Franchising is well established in Australia with more franchising outlets per capita than any country in the world and three times more franchising outlets per capita than the United States. The sector is considered both large and mature, contributing 9 percent of Australia's GDP.

Overall  
Rank

2

There are over 1,100 business format franchise systems currently operating in Australia. The best opportunities for franchising in Australia are within the retail non-food industry, which accounts for 26.6 percent of franchisors (24 percent of franchise units are involved in retailing).

There is potential within the accommodation and food services (including food retail, fast food and coffee shops) franchising sectors, which equate to 17.6 percent of franchisors. Opportunities exist within food retail, where the overall concept is to promote health and well-being along with a variety of niche food service options. Food niches include regional food concepts such as Tex-Mex and southern cooking.

The administration and support services category follows and includes travel agencies, domestic and industrial cleaning, and garden services. This sector accounts for 15.6 percent of franchising activity and represents 5 percent of franchise units.

A total of 92 percent of franchise systems are home grown. On average, Australian franchises have been operating for 21 years and franchising for 13 years. To be successful, franchisors must be flexible to "Australianize" their systems in order to suit the local market. Establishing proof of concept by first setting up a corporate or flagship business in Australia is also important.

## World Economic Forum's Global Competitiveness Index (GCI)<sup>14</sup>

### Government/Regulatory

Franchising is regulated by a Franchising Code of Conduct that was implemented to support business transactions between the franchisee and franchisor. This code, along with later amendments, requires disclosure statements that ensure that these

## Australia

Competitiveness Index	Score (1-7)
Government/Regulatory	4.9
Labor Force	3.9
Infrastructure	5.7
Demand/Business Factors	4.8
Industry Interest*	6.5

5.16 Total

World Economic Forum  
International Franchise Association\*

## Economic Statistics

Population	23.49 million
GDP	1.455 trillion
GNI, per capita (PPP)	\$42,760
Income Level	High
Unemployment	6.0%
Inflation	2.5%

World Bank (2014)

agreements include information regarding the franchisor, conditions contained within the franchise agreement, legal costs, complaint handling and dispute resolution procedures. The country receives strong ratings for security and Intellectual property protection.

### Labor Force

As a result of possessing world class educational institutions and universities, Australia has a highly educated workforce which the franchise sector can utilize.

### Infrastructure

Australia ranks as a top country for its infrastructure, including its transportation, telephone and electricity infrastructure.

### Demand/Business Factors

The finance industry in Australia is strong, making it easy to conduct business transactions.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Australia was ranked fifth.

### **Resources**

U.S. Commercial Service - Australia

<http://export.gov/Australia/>

Australia Country Commercial Guide:

<http://export.gov/ccg/australia090720.asp>

Franchise Council of Australia (FCA):

<http://www.franchise.org.au>

Australian Competition and Consumer Commission:

<http://www.accc.gov.au>

### **Industry Expert's Take:**

The franchise sector is dominated by local franchises, which hold about 95 percent of the market. There is a high cost of entry, and multi-franchisors and candidate are tough to convince to take on a foreign brand.

William Edwards, Edwards Global Services, Inc., December 16, 2015

# China

**As one of the largest economies in the world with over 1 billion people, China represents an enormous opportunity for U.S. franchise firms. Although its economy has shown signs of slowing down, China's middle class continues to expand, resulting in rising incomes and more potential consumers for franchise establishments. Franchising has shown promise in China with over 4,500 franchises and chain store companies creating more than 5 million jobs nationwide.**

Overall  
Rank

3

Statistics from China Chainstore & Franchise Association (CCFA) show that the country's top 100 franchises generated total sales of RMB 428 billion (about \$66 billion) with the total number of stores across these 100 franchises at 124,086. China has over 4,500 franchises and chain store companies creating more than 5 million jobs nationwide.

The Chinese franchising market is dominated by traditional franchise operations, like food and beverage (F&B) and retail outlets. According to CCFA, nearly 40 percent of all franchisors in China are engaged in such industries. U.S. franchisors have established a particularly strong foothold in the F&B market.

Franchising opportunities abound in non-F&B industries. The best prospects in this form of franchising include sectors such as car rental and services, education and youth learning, and health and fitness.

Foreign franchise brands are receiving greater interest from second and third-tier market developers, as markets in Beijing and Shanghai become more saturated. Major locations that were abandoned by foreign multinationals over the past few years were almost all in first-tier market cities. High rent is expected to negatively impact more foreign franchises in Beijing and Shanghai. There is, however, room for growth in China's western and inland regions that boast advantages such as lower labor costs, reasonably-priced real estate facilities and untapped consumer spending.

Some foreign companies are beginning to establish multiple retail outlets under a variety of creative arrangements, some of which function as franchises. Virtually all of the foreign companies who franchise in China either manage the operations themselves with Chinese partners (typically establishing a

different partner in each major city or region) or sell to a master franchisee, which then leases out and oversees several franchise areas within a territory.

Challenges to U.S. franchise firms include a relatively nontransparent regulatory system, increasing costs of labor and real estate, and a lack of qualified Chinese franchisee candidates. The most recent legislation released by the Ministry of Commerce in 2004 is the two-plus-one requirement. This requirement stipulates that franchisors own at least two directly operated outlets anywhere in the world before being allowed to operate a franchise model in China. In addition, franchise firms must file with the local commercial authority of record within 15 days after the execution of the initial franchise contract.

It is important for entities considering a franchise model for expansion in China to consider steps to protect their brand and image. Prior to making substantive moves into the market, including negotiations with potential partners or franchisees, companies should consult with appropriate counsel regarding trademark registration and the protection of their intellectual property rights.

One of the most difficult aspects of franchising in China is finding qualified franchisees. Franchising is still a relatively new concept in China, with many Chinese still unfamiliar with this model. Moreover, collecting royalty payments and ensuring that the franchisee maintains brand integrity can be formidable challenges. Experts recommend that companies first open their own stores in China to show the market that the business concept works and to solidify its brand positioning before attempting a franchise model. Another suggested approach is to find a franchise partner for Mainland China in a more developed area such as Hong Kong, Taiwan and Singapore.

China has issued regulations generally implementing its commitments in the area of franchising services. As part of its distribution commitments, China committed to permit the cross-border supply of franchising services immediately upon its accession to the WTO. It also committed to permit foreign enterprises to provide franchising services through a commercial presence in China, without any market access or national treatment limitations, by December 11, 2004.

In December 2004, as previously reported, MOFCOM issued new rules governing the supply of franchising services in China, which included a requirement that a franchiser own and operate at least two units in China for one year before being eligible to operate franchises in China. In 2007, following U.S. engagement, China eased the requirement that a franchiser own and operate at least two units in China by allowing a franchiser to offer franchise services in China if it owns and operates two units anywhere in the world. The United States welcomed this action and has been monitoring developments in this area since then.<sup>15</sup>

Major international franchise firms have established the following best practices for doing business in China:

- Register the brand in China before entering the Chinese market.
- Find local partners who can help navigate the local business environment.
- Understand the cultural differences and adjust market access strategies accordingly.
- Have an ability and willingness to localize your product if necessary, without changing the core product.
- Minimize the price of the final product and the franchising fee to achieve rapid expansion and mass acceptance.
- Manage government relations by establishing and maintaining solid working relationships with relevant Chinese government agencies.

#### **World Economic Forum's Global Competitiveness Index (GCI):<sup>16</sup>**

As the largest country in the world with over a billion people, China poses great opportunities for U.S. business, including franchising, but challenges do exist. China is faced with rising production costs and diminished returns on capital investments, which

China	
Competitiveness Index	Score (1-7)
Government/Regulatory	4.1
Labor Force	4.7
Infrastructure	4.7
Demand/Business Factors	4.9
Industry Interest*	6.8
<b>5.04 total</b>	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	1.364 billion
GDP	10.35 trillion
GNI, per capita (PPP)	\$13,170
Income Level	Upper Middle
Unemployment	4.7%
Inflation	2.0%
World Bank (2014)	

used to be China's selling point to foreign firms. Moving towards a consumption economy is important to China's economic future.

#### Government/Regulatory

A major impediment to conducting business in China is its difficult and onerous regulatory environment that stymies foreign investment. China's legal system can also be difficult to navigate and lacks the transparency that is needed for foreign firms. China still ranks low on its protection of intellectual property rights, which is a major concern for U.S. franchise firms.

#### Labor Force

With its enormous population, China still provides a large labor pool for prospective investors into the Chinese market. The ability to attract and retain workers, however, has been an ongoing issue. In addition, the female population is under employed in China.

#### Infrastructure

Through the years, China has invested large sums of money on its infrastructure, including roads, and ports, but its infrastructure still needs work. For example, an inadequate and inefficient cold chain system poses challenges for temperature sensitive products such as food (meats and produce) and pharmaceuticals.

### Demand/Business Factors

As a result of its large population and rising middle class, China offers foreign firms a huge consumer base to sell their goods and services. China's market is one of the most coveted in the world. The current economic slowdown in China, however, is a major concern for foreign investors and the world economy as a whole.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion

and to have profiled in the Top Markets Report, China was ranked second.

### **Resources**

U.S. Commercial Service - China

<http://www.export.gov/china/>

China - Country Commercial Guide

<http://export.gov/ccg/china>

Guide to Investment in China (site of China's Ministry of Commerce)

<http://fdi.gov.cn/>

### **Industry Expert's Take:**

Extreme change going on in the economy's GDP growth from 70 percent manufacturing and construction to 50 to 70 percent consumer spending will lead to an increased desire for western brands focused on the middle and upper class consumer (about 300 million people). For the next one to two years, finding new licensee investment will be difficult. Food supply issues are hampering new food and beverage franchise investment.

William Edwards, Edwards Global Services, Inc., December 15, 2015

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# Indonesia

**Indonesia has strong long-term potential for franchise businesses. The local industry started with three franchises in the 1970s and grew to some 35 franchises with 308 outlets by the early 1990s. The franchise industry began to gain widespread popularity in the early 1990s when many well-known American franchises arrived in Indonesia.**

Overall  
Rank

4

As Southeast Asia's largest economy, there are more than 460 foreign franchises, 540 local franchises and 1,400 non-franchised businesses operating in Indonesia covering a wide range of franchise sectors. Until recently, estimated future growth in the franchise sector was considered to be around 8 percent per year for local franchises and 14 percent per year for foreign franchises.

Local investors are very receptive to U.S. franchises. Indonesia's rising disposable incomes and large young population make it an attractive opportunity. Although the Indonesian franchise market is very competitive, the high demand for U.S. franchises, especially in the food and beverage sector, presents significant opportunities for U.S. franchisors. The demand for cafes, restaurants and bars continues to increase in the major Indonesian cities. Indonesia's growing middle class is earning higher incomes, and middle class communities are seeking food and after-hours venues for socializing. U.S. franchises are generally well received by Indonesian consumers.

In particular, there are two regulations that are of interest to U.S. firms looking to establish or expand a franchise in Indonesia. Ministry of Trade (MOT) Regulations No. 57 and 58 define the requirements and procedures for a franchisor to obtain a STPW (Surat Tanda Pendaftaran Waralaba or Franchise Registration Certificate). Before entering an agreement with a franchisee, a franchisor must first submit a copy of its draft master franchise agreement. After the draft master franchise agreement has been reviewed by the Ministry of Trade, the franchisor may register its franchise prospectus. These regulations also prohibit franchisors from appointing franchisees with whom they already have a relationship in order to provide opportunities for new franchisees and to prevent one group from gaining a monopoly. In the event a franchise agreement is terminated unilaterally by the franchisor before the expiration of the

agreement term, the franchisor cannot appoint a new franchisee for the same area until both parties reach an agreement or until there is a legally binding court verdict.

Under Regulations No. 57 and 58, franchisors and franchisees may only engage in business activities as specified in their business licenses. The regulations require franchises to use local components for at least 80 percent of their raw materials, business equipment and merchandise.

In certain cases, the Ministry of Trade may issue a permit to a company to use domestically-produced goods and/or services equating to less than 80 percent of the raw materials, business equipment and merchandise based upon a recommendation by the ministry's appointed "assessment team." The regulation also states that franchisors should select local small and medium-sized businesses as franchisees or suppliers if they fulfill the requirements established by the franchisors. The regulation limits the number of company-owned outlets operated by franchisors to 150 outlets for "modern stores," such as minimarkets, supermarkets, department stores, hypermarkets and wholesalers, and 250 outlets for restaurants and cafes. Some U.S. brands exceeded this limit prior to the regulation's inception, and it is yet to be seen whether MOT will exempt others which are quickly approaching the regulatory cap.

A variety of other regulations are of concern to many U.S. restaurant franchisors, including Hallal certification requirements, restrictions on the import of beef and new reporting requirements for wood and paper products that intend to compel the use of domestic suppliers for items such as paper cups and napkins.

## World Economic Forum's Global Competitiveness Index (GCI):<sup>17</sup>

With a government budget deficit of only 2 percent of GDP, low debt levels and a high savings rate, Indonesia's fiscal economy is sound. As an energy producing economy, Indonesia's economic prospects are tied to the price of oil, which has been on a downward trend lately.

GDP growth slowed considerably during 2015 and fell far below expectations. A significant cabinet shuffle by the current president, more than 10 economic stimulus packages that target foreign investment and the onerous regulatory regimes of the country have both inspired optimism and generated instability. Many believe the nation's largest city, Jakarta, may be quickly becoming saturated by foreign franchise brands, though many of Indonesia's secondary markets remain virtually untapped.

Indonesia	
Competitiveness Index	Score (1-7)
Government/Regulatory	4.0
Labor Force	4.1
Infrastructure	4.4
Demand/Business Factors	4.6
Industry Interest*	6.2
4.66 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	254.5 million
GDP	\$888.5 billion
GNI, per capita (PPP)	\$10,190
Income Level	Lower Middle
Unemployment	6.2%
Inflation	6.4%
World Bank (2014)	

### Government/Regulatory

Indonesia continues to receive low ratings on its government and regulatory section of the competitiveness index as a result of placing restrictive and burdensome regulations on foreign firms trying to enter its market, including franchise firms. Though improvements are underway, corruption is still a problem for U.S. firms conducting business in Indonesia. Indonesia's legal system and

transparency are also rated low. The World Bank has ranked Indonesia 109<sup>th</sup> of 189 countries on its "Ease of Doing Business" report. In response, President Jokowi has asked his cabinet to seek reforms that will elevate Indonesia to 40<sup>th</sup>.

### Labor Force

Indonesia's labor force efficiency retains low scores for attracting and retaining its workforce. Other issues of concern are the persisting rigidities in wage setting and hiring and firing procedures.

### Infrastructure

With its roads, rail, ports and electricity systems remaining inadequate, Indonesia's Infrastructure ranking fell again this year. These infrastructure failings are causes of concern for U.S. firms when considering Indonesia as a market to pursue.

### Demand/Business Factors

With its rising middle class and the largest economy in the region, Indonesia poses great opportunities for U.S. firms. Financing opportunities in Indonesia are lacking. Local content requirements are a problem for the U.S. franchise firms.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Indonesia was ranked seventh.

### Resources

U.S. Commercial Service - Indonesia

<http://www.export.gov/indonesia/>

Country Commercial Guide - Indonesia

<http://export.gov/ccg/indonesia090815.asp>

Indonesia Franchising

<http://apps.export.gov/article?id=Indonesia-franchising-industry>

### Industry Expert's Take:

**There is good potential for U.S. brands with huge middle class growth. Food and beverage brands are the top focus. Some regulatory challenges do exist for franchise firms.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**

## South Africa

**Franchising has become more popular in recent years, as it is perceived to be an effective way to conduct and grow successful businesses across a range of industries. Franchising also plays an important role in furthering the development of small and medium businesses. Job creation, poverty alleviation, economic growth and black empowerment rank high on the South African government's agenda, and there appears to be a growing recognition by the South African government (SAG) that franchising can be an effective business model to address these needs.**

Overall  
Rank

5

There are over 550 franchised systems and over 30,000 franchised outlets in South Africa today. Franchising contributes approximately 9.7 percent of South Africa's GDP and is an important job-creator and driver in the country's economy, in addition to having one of the highest business success rates. According to the latest data, total turnover for the sector was approximately R 302 billion in 2013.

Approximately 40 percent of franchises are located in the Gauteng province, particularly Johannesburg and Pretoria, which is the economic powerhouse of both the country and the African continent. Food franchises make up about 25 percent of total franchises, with some segments that are considered saturated, such as pizza and burgers. Other franchise concepts, such as B2B services, automotive, elder-care and education, are also making inroads into the market.

Patterns within existing franchises are changing due to economic belt-tightening by the population and changing consumer behavior. Some franchise owners are starting to develop smaller, more cost-effective models with reduced fees, lower start-up costs, fewer employees and less expensive rentals. Franchise owners are exploring new, less expensive locations beyond shopping and strip malls and are developing models such as stand-alone kiosks, corporate catering, campuses and sporting events. Other developments include incorporating a brand within a convenience store or a service station. Some franchises have found success by operating in tandem with non-competing brands.

Almost 90 percent of franchises are locally developed, and around 12 percent of master licenses are international. Some of the bigger South

African franchisors, such as Famous Brands and Nando's, have expanded to other regions in Africa. Notable challenges include limited access to finance, as banks tend to be more cautious in the financing of franchises. This translates into a relatively small pool of entrepreneurs and companies with the ability to finance master licenses of popular international brands. U.S. iconic brands, like Pizza Hut and Krispy Kreme, are the most recent entrants into this market.

Several business laws apply to franchising and copyrights, such as the Consumer Protection Act, Copyright Law, Common Law, Contract Law and Intellectual Property Law, all of which are vigorously enforced.

Service-based franchises, such as automotive, home improvement, and health and fitness, have experienced the fastest growth in South Africa for the past number of years, but fast-food still remains a strong opportunity, as consumers look for good value meals and convenience.

South Africa has a strong eat-out culture. Certain segments are looking for a good value for money meal with well-sized portions. South Africa also has a comparatively good infrastructure from a logistical perspective. New entrants, however, meet strong competition from home-grown brands. U.S. brands interested in entering the market must do their homework thoroughly, as the market is very fragmented. Understanding the target market and effective brand communication will determine the success or failure of the product.

## World Economic Forum's Global Competitiveness Index (GCI):<sup>18</sup>

South Africa rose in the competitiveness index in large part due to improvements in its internet, practices in combating corruption, innovation in business and efficient transport infrastructure.

South Africa	
Competitiveness Index	Score (1-7)
Government/Regulatory	4.3
Labor Force	2.9
Infrastructure	4.8
Demand/Business Factors	4.7
Industry Interest*	6.5
4.64 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	54.0 million
GDP	350.1 billion
GNI, per capita (PPP)	\$12,700
Income Level	Upper Middle
Unemployment	25.1%
Inflation	6.4%
World Bank	

### Government/Regulatory

South Africa has been able to reduce corruption and regulatory burdens to help open up its economy to foreign investors. Although still a major issue, South Africa has improved the security situation, which has been identified as a concern for investors. South Africa boasts a robust and independent legal system.

### Labor Force

South Africa's inadequate healthcare system and low quality of its education system are major worries for businesses that want to invest in South Africa.

### Infrastructure

South Africa has the continent's most efficient financial market, which is important for franchise concepts. South Africa possesses an efficient transportation infrastructure to move goods within its borders. Internet bandwidth and reliability has also improved. An inefficient electricity supply is a major concern for businesses interested in expanding into South Africa.

### Demand/Business Factors

In the African region, South Africa's 54 million people are intriguing for franchise concepts to enter the region and can serve as a spring board to other markets.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, South Africa was ranked fourth.

### Resources

South Africa - U.S. Commercial Service  
<http://www.export.gov/southafrica/>

South Africa - Country Commercial Guide (CCG)  
<http://export.gov/ccg/southafrica090960.asp>

Franchising – South Africa  
<http://apps.export.gov/article?id=South-Africa-franchising-best>

South Africa - Protecting Intellectual Property  
<http://apps.export.gov/article?id=South-Africa-protecting-intellectual-property>

South Africa - Corruption  
<http://aaps.export.gov/article?id=South-Africa-corruption>

### Industry Expert's Take:

South Africa is beginning to open up to foreign franchise brands. Food and beverage is the leading sector. The current franchise market is mostly old local brands. Hard currency export challenges exist. Established franchise companies are tough to convince to take on a new foreign brand.

William Edwards, Edwards Global Services, Inc., December 15, 2015.

# Mexico

**The franchise sector in Mexico grew 10 percent in 2014, continuing to be one of the most important sectors contributing to the country's economic growth. Conservative estimates indicate that this sector will grow at least 11 percent in 2015.**

Overall  
Rank

6

The Mexican franchise industry represents the fifth largest franchise market in the world. The sector, which employs over 80,000 people, represents about 6 percent of GDP. The sector grew 10 percent in 2014 and is expected to grow at least 11 percent in 2015.

As an important trading partner with the United States, Mexico is a diverse country that offers excellent business opportunities, especially for franchise concepts from the United States, given the commercial ties between the two countries and the recognition and acceptance of U.S. brands by Mexican consumers.

Franchising in Mexico, as in any other country, requires a long-term commitment. U.S. franchisors must commit human and financial resources, patience and time for their concept to succeed in the Mexican market. U.S. franchises must be aware that the Mexican market is dominated by local franchises. For a franchise concept to be successful in Mexico, the concept and its characteristics must be adapted or customized to suit Mexican tastes.

Traditionally, large cities, such as Mexico City, Monterrey and Guadalajara, have been the first option for locating a new franchise concept. Nevertheless, the creation or development of franchise business opportunities has also been successful in smaller cities. This trend is due to these populations looking for new products or brands, including international concepts.

Current legislation has created a favorable environment for the development of domestic and international franchises. A 2006 amendment to the Law of Industrial Property provided a clearer definition of a franchise and mandated requirements for franchise agreements and standards for pre-sale franchise disclosures. These amendments have helped to protect franchisees from abuse from

franchisors when executing or terminating agreements. This has allowed for further expansion of the franchise sector. Franchise agreements must be registered with the Mexican Institute of Industrial Property in order to be effective against third parties.

Although the food and restaurant segments of the franchise sector in Mexico continue to be very popular franchise concepts, the services segment is rapidly growing. Services, such as entertainment concepts for children and personal and home care services, have great potential in the Mexican market.

Foreign franchisors not having a permanent establishment for tax purposes in Mexico but obtaining an income from a source located within the Mexican territory are normally taxed on income (federal tax), and the tax (10 percent) is paid in Mexico by the foreign franchisor through retention or withholding made by the corresponding franchisee.

According to the Mexican Franchise Association (AMF), Mexico has over 13,000 franchise concepts, including international brands that are predominately from the United States. About 85 percent of the franchises operating in the country are Mexican brands, 6 percent are from the United States, 3 percent from Spain and the remaining 6 percent of the market is shared by Canada, Central and South America, and Europe. Firms from other Latin American countries are finding Mexico to be their best option to expand internationally.

The Mexican Franchise Association has worked closely with the Secretariat of Economy to create new programs to support the development of the sector. In 2008, the National Franchise Program (PNF) was created to promote the creation, re-engineering or acquisition of franchise concepts. This program helped approximately 800 franchise concepts (mostly national) to increase their presence

in the Mexican market. In 2012, the sector reported 12 percent growth.

Under the Peña Nieto Administration, the Secretariat of Economy created the National Institute of the Entrepreneur (INADEM) to further grow the sector. In January 2014, INADEM announced the Financing Program for Franchises, a collaborative effort with the commercial banking sector. This initiative supports investors and entrepreneurs through finance programs for the acquisition of local or international franchise concepts. For 2015, INADEM had a budget of 9 billion pesos (approximately \$65 million) available for this program.

#### **World Economic Forum's Global Competitiveness Index (GCI):<sup>19</sup>**

Mexico's overall ratings rose from last year, but many issues drag on its ability to compete in the world's marketplace, including corruption and how its government officials are perceived.

<b>Mexico</b>	
<b>Competitiveness Index</b>	<b>Score (1-7)</b>
Government/Regulatory	3.2
Labor Force	3.9
Infrastructure	4.2
Demand/Business Factors	4.6
Industry Interest*	6.8
<b>4.54 Total</b>	
World Economic Forum International Franchise Association*	
<b>Economic Statistics</b>	
Population	125.4 million
GDP	1.295 trillion
GNI, per capita (PPP)	\$16,640
Income Level	Upper Middle
Unemployment	4.9%
Inflation	4.0%
World Bank (2014)	

#### Government/Regulatory

Mexico's public institutions still rate low in property and intellectual property rights protections, which are main concerns for U.S. firms, including franchisers. Corruption is still considered the most problematic factor for doing business in Mexico. The ranking for efficiency of Mexico's legal system

continues to fall, indicating the risks of conducting business in Mexico.

#### Labor Force

Mexico's inefficient use of talent and its inability to retain and attract talent continue to drag on its economy.

#### Infrastructure

The efficiencies of Mexico's financial system have improved while its transportation infrastructure rating continues to be low, led by problems with its rail system. Electricity inefficiency and lack of reliability remain an issue as well.

#### Demand/Business Factors

As the second largest market in North America, Mexico offers U.S. companies over 125 million consumers.

#### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Mexico was ranked third.

#### **Resources**

U.S. Commercial Service – Mexico  
<http://www.export.gov/mexico/index.asp>

Mexico – Country Commercial Guide (CCG)  
<http://export.gov/ccg/mexico090857.asp>

Mexico - Franchising  
<http://apps.export.gov/article?id=Mexico-Franchising>

Mexico Franchise Association  
<http://www.franquiciademexico.org>

Mexico - Protecting Intellectual Property  
<http://apps.export.gov/article?id=Mexico-Protecting-Intellectual-Property>

#### **Industry Expert's Take:**

**The drop in the Peso against the U.S. Dollar is hampering new licensee investment. Food and beverage remains the best chance for finding new licensees, while service franchises are experiencing difficulty finding partners.**  
**William Edwards, Edwards Global Services, Inc., December 15, 2015**

# India

**Franchising as a concept has been prevalent in India for a long time. Shifting consumer trends, including growing preferences for branded products; global exposure and use of international brands is driving growth in franchising.**

Overall  
Rank

7

According to a recent KPMG and Franchise Association of India (FAI) report, the India franchise economy has a potential to grow to \$51 billion in 2017 from the present \$13.4 billion. The franchise industry is expected to contribute almost 4 percent of India's GDP in 2017.

Increasing consumption, willingness to spend, growing preference for branded products, global exposure and use of international brands is driving the demand side of franchising. This growth has increased the set of opportunity-driven competent entrepreneurs and has grown the awareness of franchising as a business opportunity and its relatively low risk profile. This is driving the supply of new franchisee units. Franchising contributes to the economic growth of a nation in multiple ways such as job creation, access to necessary goods and services and expansion of a country's tax base. The concept of franchising in India has been growing at an impressive rate since 2008, as risk-averse Indian entrepreneurs consider it to be the most viable option to tap the nation's vast consumer market.<sup>20</sup>

India is witnessing a huge demographic transformation fueled by a consumption boom. This transformation has led to a population of over 250 million middle-income Indians with high disposable incomes, changing lifestyles, mounting aspirations, appetite for Western goods, international exposure, options for quality retail space and greater product choice and availability. The greater demand for goods in India is in turn generating a greater demand for U.S. franchises.

The United States is a key player in India's franchise boom. Indians with growing incomes are demanding high quality products and services, which can be delivered by U.S. franchises. Simultaneously, India is witnessing huge growth in entrepreneurial energy and talent, and most franchisees are in their first

decade of operations and are very receptive toward American franchises.

In India, there are no laws in place with the sole purpose of regulating the growing business of franchising. When franchisors enter India, they are governed by a number of different national and regional statutes and codes rather than a single comprehensive law. The applicable laws can vary by region and should be considered before engaging in any franchising venture in India.

Since economic liberalization in 1991, India has witnessed huge growth in the number of new businesses. As a business model, franchising is ideally suited for Indian entrepreneurs. India has a vast pool of entrepreneurial energy and talent and a pressing need for increasing self-employment and other employment opportunities.

With the Indian economy recording a sustained annual GDP growth rate of 6 to 7 percent and the burgeoning Indian middle class promising to drive up nominal retail sales by 10 percent per year until 2020, the market is ripe for a franchising boom.

The top prospects for franchising are: education, food, health, beauty & wellness services and retail. Other industry sectors with potential are apparel franchises, travel and tourism, and business/financial services.

Despite potential challenges such as high real-estate prices, complex legal framework and regional differences, numerous U.S. franchisors have been extremely successful in India. Most of them have adapted their products and services to local market preferences and have pursued effective market entry and expansion strategies.

With our partners from the International Franchise Association, DOC's Global Franchise team has scheduled a trade mission to India in December 2016, along with a stop in Sri Lanka.



## World Economic Forum's Global Competitiveness Index (GCI):<sup>21</sup>

India's ranking climbed from last year mostly due to the momentum initiated by the election of Narendra Modi, whose pro-business, pro-growth and anti-corruption stance has improved the business community's sentiment toward the government.

India	
Competitiveness Index	Score (1-7)
Government/Regulatory	4.1
Labor Force	3.9
Infrastructure	3.9
Demand/Business Factors	4.6
Industry Interest*	5.8
4.46 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	1.295 billion
GDP	\$2.049 trillion
GNI, per capita (PPP)	\$5,630
Income Level	Lower Middle
Unemployment	3.6%
Inflation	6.4%
World Bank (2014)	

### Government/Regulatory

The quality of India's institutions is judged more favorably this year, although business leaders still consider corruption to be the biggest obstacle to doing business in the country.

### Labor Force

The inefficient use of talent has been a recurring issue, with a main problem of attracting and retaining talent.

### Infrastructure

Infrastructure has improved but remains a major area of concern with low ratings for rail and air infrastructure. In particular, the efficiency and reliability of India's electricity infrastructure is highlighted as a major concern for industry.

### Demand/Business Factors

With over a billion potential consumers, India's huge market is its main attraction for foreign businesses.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, India was ranked 12<sup>th</sup>.

### Resources

U.S. Commercial Service:

<http://www.export.gov/india/>

Country Commercial Guide:

<http://www.export.gov/ccg/india090814.asp>

Franchising Association of India:

<http://www.fai.co.in/>

American Chamber of Commerce, India:

<http://www.amchamindia.com/>

U.S. India Business Council:

<http://www.usibc.com/>

### Industry Expert's Take:

**It is not just another country but another universe with a large English speaking middle class. Franchise opportunities are many if you can find a licensee who will follow the franchise system.**

**William Edwards, Edwards Global Services, Inc., December 15, 2015**



# Vietnam

**The franchising model is popular and well-suited to a developing economy like Vietnam. Vietnam's culture of entrepreneurship is ideally suited to franchising, as it provides investors with a relatively rapid avenue of entering into business with controlled levels of investment and a reduced risk. Rising incomes and an emerging middle class are generating an increase in consumer-driven sectors.**

Overall  
Rank

8

With a recent trend of economic growth, the fastest growing middle class in Southeast Asia and a population of over 90 million people, Vietnam presents great opportunities for U.S. franchise firms. Franchising, due to the entrepreneurial culture in Vietnam, is already a popular concept.

With its start in the 1990s, franchising is no longer a new business concept in Vietnam and has been gaining popularity over the last decade. Major U.S. brands are now appearing in considerable numbers, and Vietnam has developed a few franchise brands itself. Presently, according to the Vietnam Ministry of Industry and Trade, up to 90 foreign brands have registered their franchising business in Vietnam. Franchisors mostly come from the United States, Australia, South Korea, Singapore, Thailand, Japan, Hong Kong, Canada and the Philippines.

Vietnamese consumers often associate Western brands with quality, life-style and reliability. They are responsive to high-end, well-known premium brand products and services. At present, the majority of franchised businesses in Vietnam are focused on fast food and retail, but significant potential exists for a wide range of companies to enter into the Vietnamese market. Franchise opportunities are gradually becoming available across a growing range of brands and sectors.

Along with the growing interest in western-style food and beverage concepts, there is considerable demand for lifestyle-oriented products and services. The franchise sector in Vietnam is poised for continued growth not only in traditional sectors of fast food but also in other sectors, such as retail, education, entertainment, health care and lifestyle-oriented businesses.

Decree No 35/2006/ND-CP, dated Mar 31, 2006, provides the legal basis for franchising operations, outlining key

definitions and requirements of franchise agreements as well as regulations for State administration of franchises. Companies wishing to utilize the franchise model should consult with qualified legal counsel for the latest franchise laws and regulations.

The biggest challenge in Vietnam is identifying suitable partners. Conducting due diligence on partners to determine their suitability and financial capability is crucial. Many local companies may not have a full understanding of brand value and/or legal regulations relating to franchising.

The recently completed Trans-Pacific Partnership 's Cross-Border Trade in Services chapter will open markets to U.S. service providers, prevent discrimination against American firms and ensure that regulations do not discriminate against U.S. services suppliers by guaranteeing equal treatment to services providers and requiring transparency in the development of services regulations.

## **World Economic Forum's Global Competitiveness Index (GCI):<sup>22</sup>**

Although Vietnam's ranking improved from last year, it has a long way to go to match many of its trade partners.

## **Government/Regulatory**

The government and regulatory environment in Vietnam remains problematic with low ratings for ethics, corruption, IPR enforcement and transparency. The legal framework must also be improved in order to attract more foreign investment.

## Vietnam

Competitiveness Index	Score (1-7)
Government/Regulatory	3.6
Labor Force	4.5
Infrastructure	3.9
Demand/Business Factors	4.3
Industry Interest*	5.9

**4.44 Total**

World Economic Forum  
International Franchise Association\*

### Economic Statistics

Population	90.73 million
GDP	\$186.2 billion
GNI, per capita (PPP)	\$5,350
Income Level	Lower Middle
Unemployment	2.3%
Inflation	4.1%

World Bank (2014)

### Labor Force

In addition to the low ratings on the educational system, ratings are low for much of the labor category, including hiring and firing practices and the ability to attract and retain talent, all of which have a negative impact on the Vietnamese economy.

### Infrastructure

The overall infrastructure system (roads, rail and ports) needs major improvements to support growth in the local economy and to attract foreign investment and business. Electricity efficiency needs improvements as well.

### Demand/Business Factors

As a major Asian market with a trade agreement with the United States, Vietnam offers an intriguing market for U.S. businesses willing to work through the many obstacles to enter into its market.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Vietnam was ranked ninth.

### **Resources**

Country Commercial Guide:

<http://www.export.gov/ccg/vietnam>

U.S. Commercial Service:

<http://www.export.gov/vietnam/>

American Chamber of Commerce (AmCham) HCMC:

<http://www.amchamvietnam.com/>

### **Industry Expert's Takes:**

**Pro U.S. brands and franchises. Rapid growth potential in the market. Fast growing middle class of big consumers.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**

**Very young population who aspire for a better life and interested in trendy stuff. Local partners are important to success in the market.**

**Albert Kong, Asiawide Franchise Consultants, IFA Convention, February 22, 2016**

# Colombia

The number of franchises in Colombia has more than doubled over the past 10 years. This boom has been driven by a better understanding and acceptance of the concept of franchising by many local firms and by the improvement in international perception of the business environment due to the entry into force of new free trade agreements.

Overall  
Rank

9

Colombia is the fourth largest economy in Latin America after Brazil, Mexico and Argentina. The United States is Colombia's largest trading partner. Colombia's economy is expected to continue to grow, creating an expanding middle class, which will provide additional opportunities for U.S. franchise firms.

The 2012 U.S.-Colombia FTA removed trade barriers to U.S. exports to Colombia and continues to contribute to expanded trade and economic growth between our two countries. The FTA also provides for improved standards for the protection and enforcement of a broad range of intellectual property rights, consistent with U.S. and emerging international standards of protection and enforcement, which will help U.S. franchise firms protect their IPR rights.

According to industry sources, the franchise sector continues to grow each year as a result of an influx of international franchise concepts, which hold about 59 percent of the Colombian market. Of the International franchise firms, the U.S. holds the largest percentage of the market.

The food and beverage sector holds the best growth opportunities in Colombia, with clothing retail close behind it. Services franchises, such as health services and education and training, are in their infancy stage.

The three largest cities of Bogota, Medellin and Cali hold the largest concentration of the franchise market. Other large cities in Colombia (Barranquilla, Cartagena, Bucaramanga, Armenia, Manizales and Pereira) should be considered for possible areas for growth.

Familiarity with international franchising concepts remains closely correlated with income bracket, with only the higher brackets being familiar with newer

and more novel concepts. Still, while the group with stronger purchasing power is more likely to adopt foreign concepts, some franchising concepts have demonstrated how they can quickly gain market appeal in the lower income brackets by offering good products with interesting discounts.

## World Economic Forum's Global Competitiveness Index (GCI):<sup>23</sup>

Colombia has risen in the overall rankings for the last two years, in large part due to the upgrades in its financial markets.

### Colombia

Competitiveness Index	Score (1-7)
Government/Regulatory	3.1
Labor Force	4.2
Infrastructure	4.1
Demand/Business Factors	4.3
Industry Interest*	6.4

4.42 Total

World Economic Forum  
International Franchise Association\*

### Economic Statistics

Population	47.79 million
GDP	377.7 billion
GNI, per capita (PPP)	\$12,910
Income Level	Upper Middle
Unemployment	10.1%
Inflation	6.77% (2015)

World Bank (2014)

## Government/Regulatory

One of the main areas needing improvement is the country's institutional framework, especially public institutions, with corruption and security remaining problematic.

### Labor Force

The low ratings for Colombia's labor force are tied to an inability to retain and attract employees and problematic hiring and firing practices.

### Infrastructure

Colombia's transportation system needs major improvements in order to attract foreign business and assist its local economy. Its rail system is extremely weak with its road and ports right behind in areas of need. Over the last couple of years, Colombia has made great strides in improving its financial system.

### Demand/Business Factors

Colombia's expanding economy and decent market size are promising for foreign firms seeking to enter the region.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Colombia was ranked sixth.

### **Resources**

Colombia Country Commercial Guide (CCG):  
<http://export.gov/ccg/colombia090766.asp>

Colombia Franchising CCG:  
<http://apps.export.gov/article?id=Colombia-Franchising>

Colombia – Protecting Intellectual Property  
<http://apps.export.gov/article?id=Colombia-Protecting-Intellectual-Property>

### **Industry Expert's Take:**

**Colombia is currently dealing with a dramatic change in the economy. Safety issues continue to be a concern. The market consists of a few major cities. Investment for new licenses is a challenge, but Colombia is very open to U.S. brands.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**

# Brazil

**The Brazilian franchise sector is among the world's largest and most sophisticated markets, in terms of business practices and in adapting concepts from both foreign and domestic franchisors. Brazil is the largest and most populous country in South America.**

**Overall Rank**  
**10**

Brazil's sovereign rating was cut to a junk rating by Moody's Investors Service in February 2016, as President Dilma Rousseff struggled to shore up fiscal accounts amid deepening political turmoil.

The Brazilian economy is being constrained by fiscal imbalances and political instability, which has caused a lack of much needed foreign investment in its economy. Pressing problems include high income inequality, crime, inflation, rising unemployment and corruption.

Brazil's large market size has always been the reason why U.S. businesses keep trying to crack the Brazilian market. Brazil still faces significant internal protectionist pressures, often presenting challenges for firms interested in entering the enormous market.

In 2014, the Brazilian franchise sector grew by 7.7 percent, and total sector revenue was about R\$ 127.331 billion (USD 49 billion). In 2014 there were an estimated 2,942 franchising chains (a growth of 8.8 percent compared to 2013) and 125,641 franchising units in the country (a growth of 9.8 percent compared to 2013), making Brazil the sixth largest in the world (in number of units) and the fourth largest in number of franchise chains. The franchise sector currently accounts for 1.1 million jobs in Brazil, a growth of 6.5 percent over last year, during a period in which the Brazilian unemployment rate was 6.8 percent.

The Brazilian franchise sector is among the world's largest and most sophisticated markets. In fact, the franchising sector has consistently grown faster than Brazil's economy overall and remains one of its positive economic sectors.

U.S. franchisors encounter strong competition in this robust market from Brazilian franchisors offering more products and service solutions than are available in other Latin American markets.

With our partners from the International Franchise Association, DOC's Global Franchise team has scheduled a trade mission to Brazil in September 2016, in conjunction with a stop in Uruguay.

## **World Economic Forum's Global Competitiveness Index (GCI):<sup>24</sup>**

Brazil continues its downward trend, amid rising inflation, low prospects for growth and deteriorating terms of trade.

Brazil	
Competitiveness Index	Score (1-7)
Government/Regulatory	2.9
Labor Force	3.3
Infrastructure	4.4
Demand/Business Factors	4.3
Industry Interest*	7.0
4.38 Total	
World Economic Forum (2015-16) International Franchise Association*	
Economic Statistics	
Population	206.1 million
GDP	2.346 trillion
GNI, per capita (PPP)	\$15,590
Income Level	Upper Middle
Unemployment	6.8%
Inflation	6.3%
World Bank (2014)	

## Government/Regulatory

Brazil seeks to strengthen its workforce and its economy over the long run by imposing local content and technology transfer requirements on foreign businesses, which may impact the franchise sector. The Brazilian economy is being constrained by fiscal imbalances, consequences of a massive corruption scandal and political instability, which has caused a lack of much needed foreign investment in its economy.

### Labor Force

Brazil's labor market efficiencies are again trending lower. Several workforce factors, such as strict limitations on hiring and firing practices and the inability to retain and attract talent, have hurt Brazil's competitiveness.

### Infrastructure

Brazil has registered a significant improvement in the quality of its air transport infrastructure, but low ratings remain for its rail, port and road infrastructure.

### Demand/Business Factors

Brazil's huge economy and population are magnets for foreign investments. Brazil's deteriorating economy and protectionist practices, however, have made it extremely difficult for foreign firms to enter the market.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Brazil was ranked first.

### **Resources**

Brazil Country Commercial Guide:

<http://export.gov/ccg/brazil090732.asp>

U.S. Commercial Service:

<http://export.gov/Brazil/>

Brazil Franchising

<http://apps.export.gov/article?id=Brazil-Franchising>

U.S. Mission to Brazil - Intellectual Property Protection:

<http://brazil.usembassy.gov/intelprop.html>

Brazilian Franchise Association:

[www.portaldofranchising.com.br/](http://www.portaldofranchising.com.br/)

### **Industry Expert's Take:**

**Very high level of inflation, low GDP growth, political instability, no new investment happening and 96 percent of franchises are local.**

**William Edwards, Edwards Global Services, Inc., December 15, 2015**

# Argentina

The local franchising industry has developed into a challenging and highly competitive environment for international franchisors seeking local partners.

Overall  
Rank

11

Argentina is the second largest country in South America, with approximately 43 million people. The economy benefits from an abundance of natural resources and a highly literate and well-educated population. Once again, high inflation poses major troubles for its economy.

The U.S. exported \$10.8 billion in goods to Argentina in 2014 and purchased \$4.4 billion. In services, the U.S. exported \$7.1 billion, and Argentina sold \$1.9 billion.

Franchising is an extremely competitive sector which accounts for approximately 2 percent of Argentina's GDP. Local franchises dominate the market with almost 90 percent of the market. With about 400 brands in Argentina, a small number of franchises control a large portion of the market.

Franchising is a successful model in Argentina, with fast food, foreign language training, dry cleaning, hotels and car rental business continuing to be popular franchise concepts. Coffee shops are currently a growth sector. Since 2008, Starbucks has opened over 30 stores. The U.S. franchise sector is well represented by McDonald's, Burger King, Re/Max, KFC and others.

Although initiatives to advance a franchising law are being discussed, currently franchise contracts are generally protected under the Argentine Commercial Code and are not governed by specific legislation. The scope of the service, commercial trade market/name, expertise and shared production elements are covered by contractual obligations on both franchisor and franchisee. Elements of the contract include the license, methods/systems or proprietary information transferred to a franchisee, inputs supply, sales methods, quality standards and ultimate control by franchisor of the contract elements.

Without formal laws regarding franchising, legal counsel is recommended when entering into a franchise agreement in Argentina.

## World Economic Forum's Global Competitiveness Index (GCI):<sup>25</sup>

Argentina drops again in this year's rankings due to poor rankings in numerous categories. These rankings only reflect the already known problems that Argentina faces impacting its competitiveness in the global marketplace.

Argentina	
Competitiveness Index	Score (1-7)
Government/Regulatory	2.7
Labor Force	2.8
Infrastructure	3.4
Demand/Business Factors	3.6
Industry Interest*	5.9
3.68 Total	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	42.98 million
GDP	\$537.7 billion
GNI, per capita (PPP)	No data
Income Level	High
Unemployment	8.2%
Inflation	No data
World Bank (2014)	

## Government/Regulatory

The country is currently facing a deep institutional crisis, scoring poorly on property rights, ethics and corruption, and government efficiency. These issues must be addressed or Argentina's economy will continue falter behind the rest of the developed world.

### Labor Force

Overall rankings on Labor Force Efficiency are extremely low for a country of Argentina's economic status. The hiring and firing practices rating continues to drop, while the capacity to attract and retain employees and the flexibility of wages remain low as well. Argentina does have a well-educated work force.

### Infrastructure

Another factor leading to the anemic Argentinean economy is the quality of its infrastructure, which rates among the worst in the region. Argentina rates poorly in all infrastructure categories: road, rail, port and quality of its electrical supply.

### Demand/Business Factors

A weak macroeconomic environment and inefficient financial sector hold back investment, with business leaders considering inflation and foreign currency

regulations to be the two most problematic factors for doing business in Argentina.

### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Argentina was ranked 10<sup>th</sup>.

### **Resources**

U.S. Commercial Service

<http://www.export.gov/argentina/>

Argentina Country Commercial Guide (CCG)

<http://export.gov/argentina/doingbusinessinargentina/argentinacountrycommercialguide/index.asp>

Argentina - Franchising

<http://apps.export.gov/article?id=Argentina-franchising>

### **Industry Expert's Take:**

**Recent change in government could greatly increase the potential for this major, western style market with high middle class consumer opportunity.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**



# United Kingdom

**The United Kingdom's market is mature, sophisticated and, in many areas, saturated. To succeed here, a franchise must offer a concept that is truly unique and different from what is already available to a highly discerning customer base.**

**Country to Consider**

Though U.S. brands have a strong interest in the UK market, this does not necessarily translate to a market opportunity. The UK is an extremely competitive environment to enter for international franchising concepts. The domestic franchising market is thriving in the UK, which makes market entry for international brands difficult.

Although the UK is open to international business and scores extremely well in the World Economic Forum ratings, the U.S. franchising industry experiences unique barriers and issues in this market.

Access to Capital: UK banks are hesitant to loan to franchisees and require pilot locations with at least one year of operation and projections for year one, three and five business plans.

Foreign Direct Investment: As a result of difficulties in obtaining capital in UK, FDI is a key component of market entry, and many of franchising brands may not be ready for that level of commitment to the market.

Property and physical locations: Aside from being extraordinarily expensive in terms of rents and contracts, many landlords will not or are reluctant to rent their premises to franchisees. Landlords prefer to deal with corporate entities because they can easily meet the contract requirements and can absorb any rental costs not covered by running the business.

Market Saturation: The franchise market in the UK continues to be saturated. As a result of the lack of past success and weak future forecasts for U.S. franchise concepts in the UK, the franchising sector is no longer monitored by a commercial specialist in the United Kingdom. Therefore, the U.S. Commercial Service in the UK does not provide focused resources for the franchise industry.

According to the 2013 British Association Industry report (2012 data), franchising contributed \$21.9 billion to the UK economy. This equates to just less than 1 percent of GDP. In 2012, there were 930 franchise systems in the UK (up by one franchise from 2011) with 37,300 franchised units (down 3 percent from 38,400 units in 2012). The largest 9 systems operate just under 7,000 units between them. There are an estimated 22,400 franchisees in total, with one in four running multiple units. UK franchisees employ 594,000 staff. Just under one-third of franchises operating in the UK are members of the British Franchise Association (BFA).<sup>26</sup>

U.S. businesses looking to franchise within the UK will likely find that the market is quite robust and friendly to franchise systems in general. There are a number of laws that govern the operation of franchises within the UK, but these laws are fairly broad and generally do not constrain the competitive position of U.S. businesses. The potential franchisor should take care to look not only at EU regulations but also at the local laws concerning franchising and specific business sectors.

The UK has no specific laws governing franchising. The British Franchise Association operates a voluntary code of practice for franchisors.<sup>27</sup>

As noted earlier, entering the UK franchise market and succeeding is a challenge. Companies that demonstrate a commitment to the market and perform adequate research into their industry, however, will most likely do well here. Making the appropriate approach may reap highly rewarding results, as UK success is often used as a springboard into the rest of Europe.<sup>28</sup> Although the UK economy is starting to grow again, financial losses in the recession have resulted in lenders and investors taking a measured and cautious approach to new business ventures. Franchisors seeking to establish operations

quickly, within months, will struggle in the UK as it can take a significant amount of time to find a suitable partner. New franchises must prove themselves in this market.<sup>29</sup>

### World Economic Forum's Global Competitiveness Index (GCI)<sup>30</sup>

The country has developed a vibrant service sector to lead the European markets in this area. The UK government is known to be business friendly.

United Kingdom	
Competitiveness Index	Score (1-7)
Government/Regulatory	5.3
Labor Force	5.3
Infrastructure	6.0
Demand/Business Factors	5.4
Industry Interest*	6.0
<b>5.6 Total</b>	
World Economic Forum International Franchise Association*	
Economic Statistics	
Population	125.4 million
GDP	\$2.989 trillion
GNI, per capita (PPP)	No data
Income Level	High
Unemployment	6.3%
Inflation	1.5%
World Bank (2014)	

#### Government/Regulatory

The United Kingdom is an attractive market due to its advanced and transparent government and regulatory environment. Its open and efficient legal system provides a secure marketplace that attracts foreign investment. The UK has strong intellectual property protection and enforcement, which are important factors for franchises seeking to establish in the UK.

#### Labor Force

The United Kingdom continues to be home to some of the best universities in the world, which ensures a well-educated workforce.

#### Infrastructure

Boasting one of the best infrastructures in the world, the UK's electricity and phone infrastructure is highly regarded globally. The government has invested in its transport infrastructure, which is important to the franchise industry. In addition, the UK's financial system is one of the best in which to conduct business transactions.

#### Demand/Business Factors

Still hurting from the latest global financial crisis, the UK financial market remains strong and is still able to provide banking and financial services for entrepreneurs, including franchisees. Finding quality suppliers for franchise firms is also not a problem in the advanced UK economy.

#### Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, the UK was ranked eighth.

#### **Resources**

U.S. Commercial Service – United Kingdom

<http://www.export.gov/unitedkingdom/>

United Kingdom – Country Commercial Guide (CCG)

<http://export.gov/ccg/unitedkingdom090963.asp>

United Kingdom - Franchising

<http://apps.export.gov/article?id=United-Kingdom-Franchising>

The British Franchise Association

<http://www.thebfa.org>

The European Franchise Federation

<http://eff-franchise.com>

#### **Industry Expert's Take**

**The economy is growing at a positive rate. New franchise investment is happening. The main challenge is that British licensee candidates want foreign brands to open a test unit before committing to a license.**

**William Edwards, Edwards Global Services, Inc., December 16, 2015**

## Addendum: Resources for U.S. Exporters

*The U.S. Government has numerous resources available to help U.S. exporters: from additional market research, to guides to export financing, to overseas trade missions, to staff around the country and the world. A few key resources are highlighted below. For additional information about services from the International Trade Administration (ITA), please visit [www.export.gov](http://www.export.gov).*

### Country Commercial Guides

<http://export.gov/ccg/>

Written by U.S. Embassy trade experts worldwide, the *Country Commercial Guides* provide an excellent starting point for what you need to know about exporting and doing business in a foreign market. The reports include sections addressing: market overview, challenges, opportunities, and entry strategies; political environment; selling U.S. products and services; trade regulations, customs, and standards; and much more.

### Basic Guide to Exporting

<http://export.gov/basicguide/>

*A Basic Guide to Exporting* addresses virtually every issue a company looking to export might face. Numerous sections, charts, lists and definitions throughout the book's 19 chapters provide in-depth information and solid advice about the key activities and issues relevant to any prospective exporter.

### Trade Finance Guide: A Quick Reference for U.S. Exporters

<http://www.export.gov/tradefinanceguide/index.asp>

*Trade Finance Guide: A Quick Reference for U.S. Exporters* is designed to help U.S. companies, especially small and medium-sized enterprises, learn the basics of trade finance so that they can turn their export opportunities into actual sales and achieve the ultimate goal of getting paid on time for those sales. Concise, two-page chapters offer the basics of numerous financing techniques, from open accounts to forfaiting and government assisted foreign-buyer financing.

### Trade Missions

<http://www.export.gov/trademissions/>

Department of Commerce trade missions are overseas programs for U.S. firms that wish to explore and pursue export opportunities by meeting directly with potential clients in their markets.

Trade missions include among other activities: one-on-one meetings with foreign industry executives and

government officials that are pre-screened to match specific business objectives.

The following franchise trade mission are scheduled for 2016: Middle East (Oman, Qatar, UAE and Turkey); Latin America (Brazil and Uruguay); and India and Sri Lanka.

### Certified Trade Fairs

[http://www.export.gov/eac/show\\_short\\_trade\\_events.asp?CountryName=null&StateName=null&IndustryName=null&TypeName=International%20Trade%20Fair&StartDate=null&EndDate=null](http://www.export.gov/eac/show_short_trade_events.asp?CountryName=null&StateName=null&IndustryName=null&TypeName=International%20Trade%20Fair&StartDate=null&EndDate=null)

The Department of Commerce's trade fair certification program endorses overseas trade shows that are reliable venues and good markets for U.S. firms to sell their products and services abroad. These shows serve as vital access vehicles for U.S. firms to enter and expand into foreign markets. The certified show/U.S. pavilion ensures a high-quality, multi-faceted opportunity for American companies to successfully market overseas. Among other benefits, certified trade fairs provide U.S. exhibitors with help facilitating contacts, market information, counseling and other services to enhance their marketing efforts.

### International Buyer Program

<http://export.gov/ibp/>

The International Buyer Program (IBP) brings thousands of international buyers to the United States for business-to-business matchmaking with U.S. firms exhibiting at major industry trade shows. Every year, the International Buyer Program results in millions of dollars in new business for U.S. companies by bringing pre-screened international buyers, representatives and distributors to selected shows. U.S. country and industry experts are on site at IBP shows to provide hands-on export counseling, market analysis, and

matchmaking services. Each IBP show also has an International Business Center, where U.S. companies can meet privately with prospective international buyers, prospective sales representatives, and business partners and obtain assistance from experienced ITA staff.

The International Franchise Expo (IFE), which has been a certified IBP for years, will take place in June 2016 in New York City.

#### **U.S. Commercial Service**

<http://www.export.gov/usoffices/index.asp>

With offices throughout the United States and in U.S. Embassies and consulates in nearly 80 countries, the U.S. Commercial Service utilizes its global network of trade professionals to connect U.S. companies with

international buyers worldwide. Whether looking to make their first export sale or expand to additional international markets, companies will find the expertise they need to tap into lucrative opportunities and increase their bottom line. This includes trade counseling, actionable market intelligence, business matchmaking, and commercial diplomacy.

#### **Global Franchise Team**

<http://export.gov/industry/franchising/index.asp>

The Global Franchise Team works closely with both the IFA and the Franchise Times, a leading franchise publication, to support U.S. franchising companies. The team has coordinated with these partners on numerous trade missions and on addressing international trade issues.

## Appendix 1: Scorecards

The scorecard assigns a numeric value to each of the criteria on a scale of 1 to 7 with 7 being the best score that can be received in a particular category.

### Franchise Competitiveness Scorecard: Americas<sup>31</sup>

Criteria (1 - 7 Best)	U.S.	Argentina	Brazil	Canada	Colombia	Mexico
<b>Government/Regulatory</b>	<b>4.8</b>	<b>2.7</b>	<b>2.9</b>	<b>5.1</b>	<b>3.1</b>	<b>3.2</b>
Ethics and corruption	4.5	2.1	2.1	5.3	2.5	2.5
Intellectual Property Protection	5.8	3	3.7	5.8	3.7	3.8
Efficiency of legal framework in settling disputes	4.9	2.7	2.8	5.2	3.1	3.1
Efficiency of legal framework in challenging regulations	4.8	2.3	2.9	5.0	3	3.0
Transparency of government policymaking	5.0	3	3.1	5.3	3.9	4.1
Security	4.9	3.9	4.2	5.6	3.1	3.2
Burden of government regulation	3.6	2.2	1.7	3.8	2.6	2.8
<b>Labor Force</b>	<b>5.4</b>	<b>2.8</b>	<b>3.3</b>	<b>5.1</b>	<b>4.2</b>	<b>3.9</b>
Flexibility of wage determination	5.7	2.8	4.0	5.4	5.3	5.1
Hiring and firing practices	5.0	2.5	2.3	4.5	3.6	3.5
Efficient use of talent	5.4	3.2	3.7	5.4	3.6	3.2
<b>Infrastructure</b>	<b>6.0</b>	<b>3.4</b>	<b>4.4</b>	<b>5.9</b>	<b>4.1</b>	<b>4.2</b>
Electricity and telephony infrastructure	5.8	3.9	4.4	5.9	4.3	3.9
Transport infrastructure	5.9	3.2	3.5	5.6	3.2	4.5
Availability of financial services	6.2	3.1	5.2	6.1	4.8	4.3
<b>Demand / Business Factors</b>	<b>5.5</b>	<b>3.6</b>	<b>4.3</b>	<b>5.1</b>	<b>4.3</b>	<b>4.6</b>
Domestic market size	7.0	5	5.8	5.3	4.7	5.5
Domestic competition	5.2	2.9	3.7	5.3	3.9	4.2
Foreign competition	4.5	2.8	3.2	4.9	3.9	4.4
Control of international distribution	5.3	3.4	3.8	4.6	3.8	4.0
Local supplier quantity	5.4	3.9	4.7	5.1	4.9	4.6
Local supplier quality	5.5	3.8	4.3	5.4	4.7	4.7
<b>Industry Interest</b>	<b>7.0</b>	<b>5.9</b>	<b>7.0</b>	<b>5.9</b>	<b>6.4</b>	<b>6.8</b>
<b>Total Score</b>	<b>5.7</b>	<b>3.7</b>	<b>4.4</b>	<b>5.4</b>	<b>4.4</b>	<b>4.5</b>

Industry Interest (International Franchise Association)

## Franchise Competitiveness Scorecard: Asia<sup>32</sup>

Criteria (1 - 7 Best)	China	India	Indonesia	Vietnam
<b>Government/Regulatory</b>	<b>4.1</b>	<b>4.1</b>	<b>4.0</b>	<b>3.6</b>
Ethics and corruption	4.0	4.1	3.7	3.1
Intellectual Property Protection	4.0	4.2	4.3	3.6
Efficiency of legal framework in settling disputes	4.0	4.2	3.9	3.7
Efficiency of legal framework in challenging regulations	3.5	4.1	3.9	3.4
Transparency of government policymaking	4.5	4.2	4.1	3.8
Security	4.7	3.9	4.1	4.5
Burden of government regulation	4.0	4.0	3.8	3.2
<b>Labor Force</b>	<b>4.7</b>	<b>3.9</b>	<b>4.1</b>	<b>4.5</b>
Flexibility of wage determination	5.0	4.0	4.3	5.0
Hiring and firing practices	4.6	4.4	4.3	4.2
Efficient use of talent	4.6	3.2	3.8	4.4
<b>Infrastructure</b>	<b>4.7</b>	<b>3.9</b>	<b>4.4</b>	<b>3.9</b>
Electricity and telephony infrastructure	4.4	2.8	4.0	4.1
Transport infrastructure	5.1	4.6	4.4	3.6
Availability of financial services	4.5	4.2	4.9	3.9
<b>Demand / Business Factors</b>	<b>4.9</b>	<b>4.6</b>	<b>4.6</b>	<b>4.3</b>
Domestic market size	7.0	6.4	5.7	4.5
Domestic competition	4.5	4.2	4.5	4.4
Foreign competition	3.9	3.9	4.1	4.7
Control of international distribution	4.3	4.0	4.2	3.7
Local supplier quantity	5.2	4.6	4.7	4.5
Local supplier quality	4.3	4.3	4.2	3.8
<b>Industry Interest</b>	<b>6.8</b>	<b>5.8</b>	<b>6.2</b>	<b>5.9</b>
<b>Total Score</b>	<b>5.0</b>	<b>4.4</b>	<b>4.7</b>	<b>4.4</b>

Industry Interest (International Franchise Association)

## Franchise Competitiveness Scorecard: Rest of the World<sup>33</sup>

Criteria (1 - 7 Best)	Australia	S. Africa	U.K.
<b>Government/Regulatory</b>	<b>4.9</b>	<b>4.3</b>	<b>5.3</b>
Ethics and corruption	5.3	3.2	5.4
Intellectual Property Protection	5.8	5.4	6.0
Efficiency of legal framework in settling disputes	4.9	5.3	5.7
Efficiency of legal framework in challenging regulations	4.7	5	5.3
Transparency of government policymaking	4.9	4.5	5.5
Security	5.7	4.1	5.4
Burden of government regulation	3.3	2.9	3.9
<b>Labor Force</b>	<b>3.9</b>	<b>2.9</b>	<b>5.3</b>
Flexibility of wage determination	4.1	2.7	5.8
Hiring and firing practices	2.9	2.2	4.8
Efficient use of talent	4.8	3.9	5.3
<b>Infrastructure</b>	<b>5.7</b>	<b>4.8</b>	<b>6.0</b>
Electricity and telephony infrastructure	6.2	3.5	6.4
Transport infrastructure	5.2	4.7	5.6
Availability of financial services	5.6	6.1	6.1
<b>Demand / Business Factors</b>	<b>4.8</b>	<b>4.7</b>	<b>5.4</b>
Domestic market size	5.1	4.8	5.7
Domestic competition	4.9	4.9	5.3
Foreign competition	4.8	4.5	5.3
Control of international distribution	4.1	4.3	5.0
Local supplier quantity	4.7	4.6	5.6
Local supplier quality	5.3	4.8	5.4
<b>Industry Interest</b>	<b>6.5</b>	<b>6.5</b>	<b>6.0</b>
<b>Total Score</b>	<b>5.2</b>	<b>4.6</b>	<b>5.6</b>

Industry Interest (International Franchise Association)

## Appendix 2: Citations

- <sup>1</sup> International Franchise Association (IFA), MDCP Application, March 2015
- <sup>2</sup> International Franchise Association (IFA), MDCP Application, March 2015
- <sup>3</sup> International Franchise Association (IFA), MDCP Application, March 2015
- <sup>4</sup> International Franchise Association (IFA), MDCP Application, March 2015
- <sup>5</sup> International Franchise Association (IFA), MDCP Application, March 2015
- <sup>6</sup> Aziz Hasham, “Communicating the Positive Message of Franchising”, IFA Convention, February 2016.
- <sup>7</sup> Aziz Hasham, “Communicating the Positive Message of Franchising”, IFA Convention, February 2016.
- <sup>8</sup> International Franchise Association (IFA), MDCP Application, March 2015
- <sup>9</sup> Willian Edwards, Edwards Global Services, 2016 IFA Convention, February 22, 2016
- <sup>10</sup> <http://apps.export.gov/article?id=Canada-Franchising>
- <sup>11</sup> Franchising Fast Facts, Canadian Franchise Association ([http://www.cfa.ca/tools\\_resources/franchise-research-facts/](http://www.cfa.ca/tools_resources/franchise-research-facts/))
- <sup>12</sup> <http://apps.export.gov/article?id=Canada-Franchising>
- <sup>13</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>14</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>15</sup> 2015 Report to Congress on China’s WTO Compliance United States Trade Representative, December 2015, pages 134-135.
- <sup>16</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>17</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>18</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>19</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>20</sup> <http://fai.co.in/franchising-in-india.html>
- <sup>21</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>22</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>23</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>24</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>25</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>26</sup> Franchising, CS Europe – Regional Sector Report, December 2015
- <sup>27</sup> <http://apps.export.gov/article?id=United-Kingdom-Franchising>
- <sup>28</sup> Franchising, CS Europe – Regional Sector Report, December 2015
- <sup>29</sup> Franchising, CS Europe – Regional Sector Report, December 2015
- <sup>30</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>31</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>32</sup> World Economic Forum, The Global Competitiveness Report 2015-2016
- <sup>33</sup> World Economic Forum, The Global Competitiveness Report 2015-2016



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